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2016 Dairy and Products Report.

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Dairy and Products

Approved By:

Russ Nicely, Agricultural Attaché

Prepared By:

Piotr Rucinski, Agricultural Specialist

Report Highlights:

It is expected that in 2016 milk production in Poland will remain flat in comparison to 2015 because higher output in the first half of the year will be offset by a decrease of production in the second half of the year. Milk production is expected to be mainly processed into butter and cheese, which are in demand on the world market. In response to the European Commission's market intervention measures till August 16, 2016 Poland placed into the intervention and PSA stocks 35,333 MT and 2,318 MT of Non Fat Dried Milk, respectively.

General Information:

Production

Poland is the fourth largest milk producer in the EU28. It is estimated that in 2016, raw milk output in Poland will amount to 13,100,000 MT, no change compared to 2015. It is estimated that in 2016 83 percent of milk is delivered to the dairy industry and the remaining 17 percent is consumed on-farm or sold to the local community.

In the first eight months of 2016 milk deliveries in Poland increased by 3.9 percent in comparison to the same period of 2015. In August 2016 average farm-gate prices for milk amounted to Euro 25 per 100 kilograms of milk, a 10 percent decrease in comparison to August 2015.

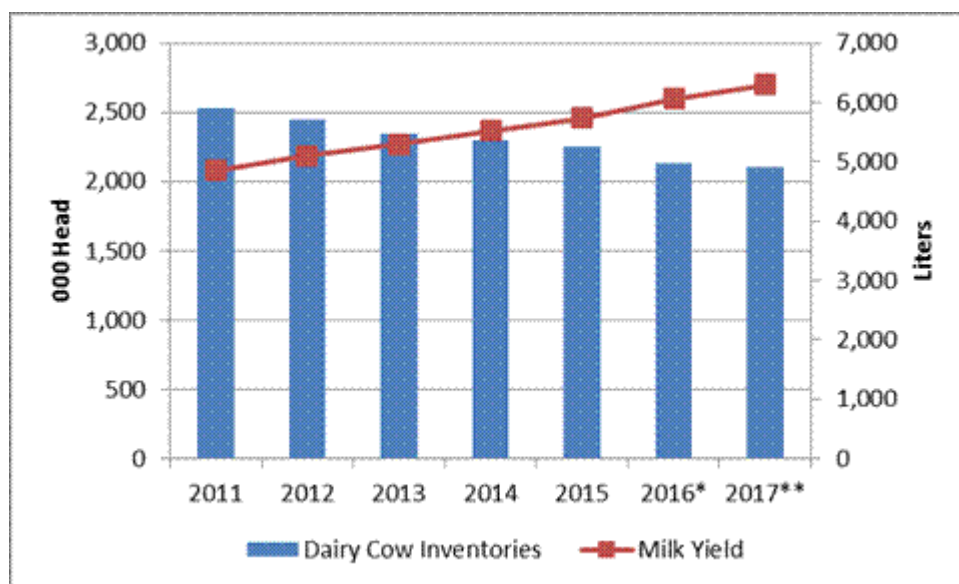
Production of milk and milk products (000 MT)

	2013	2014	2015	2016 (estimate)	2017 (forecast)
Milk Production	12,710	12,976	13,108	13,100	13,300
Milk Deliveries	9,817	10,515	10,830	10,830	11,000
Fluid milk	1,594	1,604	1,646	1,620	1,600
Cheese	735	717	756	770	780
Butter	172	180	191	195	200
Non Fat Dry Milk	108	179	162	178	180
Whole Dry Milk	46	57	46	43	43

Increased supplies of raw milk and slower export markets for dairy products were the major reasons for declining prices in the first eight months of 2016. Milk production in 2016 will be mostly directed for production of butter and cheese, which are in demand both domestically and internationally. Production of cheese in 2016 is expected to increase in comparison to 2015 because of growing exports within the EU. Production of Whole Dried Milk (WDM) is expected to decrease in 2016 because of a significant drop in export demand. A decline in raw milk prices in the first half of 2016 reduced profit margins in dairy production. The trend of dairy herd contraction is expected to continue in 2016 and 2017. At the beginning of 2016 inventories of dairy cows amounted to 2.1 million head and were 5 percent lower than a year ago. However, higher production per cow is expected to offset the decrease of cow numbers. In 2015 average milk yield amounted to almost 6,000 kilograms per head. The reduction of dairy cow inventories stems from a decrease in the number of small scale producers and a higher share of large farms which invest in better genetics and technologies. Large dairy farms widely use semen of genomically tested Holstein bulls imported from the United States which has a positive impact on the genetic value of animals which results in higher milk production.

In Poland there are 175 dairy processing plants which employ over 32,000 people. In the first half of 2016 the financial situation of the dairy processing sector deteriorated because of reduced prices for dairy products.

Inventories of dairy cows and evolution of milk yield of dairy cows



It is expected that in the second half of 2016 the financial situation of the dairy sector will improve because of expected increase of export prices for dairy products later in 2016.

Consumption

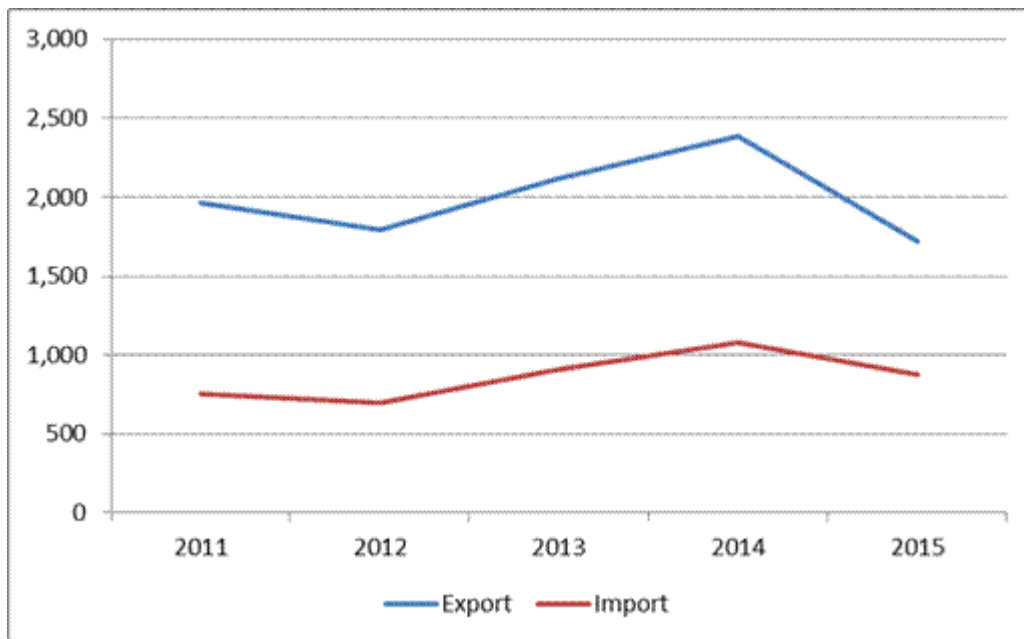
In 2015 average annual consumption of dairy products in milk equivalent amounted to 213 liters per capita. It is estimated that in 2016 overall consumption of dairy products will increase by 3 percent in comparison to 2015 mainly because of higher production of dairy products and expected reduction of exports. Consumption of fresh dairy products is expected to slightly decline as a result of higher prices and substitution by increased consumption of meat. It is expected that higher consumption of butter in 2016 will stem from higher supplies and decreased consumption of margarine. On-farm consumption of milk, cream and butter in 2015 amounted to 57, 30 and 8 percent respectively. On-farm consumption of dairy products in 2016 is expected to remain at the previous year's level.

Trade

Poland is a net exporter of dairy products. In 2015 the value of exports of dairy products amounted to US\$ 1.721 billion while imports were at the level of US\$ 0.877 billion. Germany, UK, the Netherlands and Czech Republic are the main export markets for Polish dairy products. In the first seven months of 2016 the value of exports of dairy products amounted to US\$ 0.913 billion and was 14 percent lower than in the same period of 2015. The decrease of exports resulted from the Russian ban which reduced exports to Russia and also from lower demand for dairy products within the EU.

Value of Exports and Imports of Dairy Products

(U.S. \$ millions)



In the first seven months of 2016 Poland exported mainly fluid milk, cheese and ice cream to Germany, cheese to the UK, whey and milk to the Netherlands, and cheese and butter to the Czech Republic. Outside of the EU Poland exports NFD, whey and cheese mainly to Algeria, China and Belarus. In 2015 the value of exports of dairy products to the U.S. amounted to U.S.\$ 22.8 million out of which U.S.\$ 6.6 million was for cheese. Within the EU, Poland imports dairy products mainly from Germany, Ireland and the Netherlands. In the first seven months of 2016 the value of imports decreased by 2 percent mainly because of decrease in imports of cheese from Germany.

Stocks

Until August 16, 2016, Poland placed into intervention and PSA stocks 35,333 MT and 2,318 MT, respectively, of Non Fat Dried Milk. At the same time stocks of butter under the PSA program amounted to 3,347 MT. It is expected that Poland will not continue to use the EU's intervention purchases of NFD later in 2016 because prices increased above the intervention threshold.

End of Report.